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COST *and* MANAGEMENT

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THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF CANADA

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.. CONTENTS ..

SOCIETY NOTES	174
NEW MEMBERS	176
CHAPTER NOTES	177
CURRENT LITERATURE DIGEST	180
THE CURRENT CRITICISMS AND COMMENTS IN RE- SPECT TO THE PRESENTATION OF FINANCIAL STATEMENTS	184
COSTING IN THE FISHING INDUSTRY	189
STUDENT SECTION	205

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25 cents each. Authorized as second class mail, Post Office Department,
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SOCIETY NOTES

HEAD OFFICE IN NEW LOCATION

After two years of diligent searching for a new office, we were finally able to secure the space required and very fortunately it turned up in the same office building so there is no change in our mailing address. We have now moved into our new quarters and it is indeed a welcome relief from the cramped conditions under which the staff was required to work.

In our former office the Society grew from 700 members to 2,700, which best indicates the extent to which our facilities were taxed. The number of volumes in our library has more than doubled in that period of time and when we recently acquired some new equipment we were literally bulging at the seams. We are now on the second floor of the same office building with two one and half times the space. Although we had to move in the midst of preparing for the Ontario and Dominion Annual Meetings, we were still very pleased to have the benefit of the additional space as quickly as possible. We invite any of our members to drop in at any time and see us in our new home.

THE SOCIETY AND ITS MEMBERS

As this issue of "Cost and Management" reaches the members, representatives of all affiliated Provincial Societies will be making their way to Banff to review the business affairs of our organization and more particularly to discuss the many problems which are contributory to a rapidly growing organization. Ways and Means of making this Society more helpful to its members in the services available and used by its members will be reviewed. In the latter category there will be under discussion such topics as:

- a. How can we assist in maintaining the high standard of the chapter programs.
- b. Is "Cost and Management" giving our members the material they desire?
- c. The "R.I.A." designation is becoming known, but what other avenues can be explored so as to continue to inform the public regarding the qualifications represented and our supporting organization.
- d. Is our Educational Program keeping pace with the modern trend in the business economy?

The sound foundation on which the Society progress has attained a very strong organizational super structure, now offers a challenge to the delegates to this 28th Annual Meeting, to maintain the ideals visualized by the charter members. The prestige and advantages in Society membership must be given added security. Do we fully appreciate the

SOCIETY NOTES

goodwill in our Society membership? May we again renew for you the pre-amble in our message to prospective members by re-printing the portion of the brochure which states:

YOU have a stake in the future of industrial and cost accounting in Canada. Even though you may not necessarily be engaged in the actual field of accounting, the success of your business depends upon the controls which the accounting department provides and the manner in which these controls are utilized in the management of business. It is to your advantage to be kept fully informed on new developments and new accounting techniques.

YOU need the opportunity to discuss your problems with others in your profession. It is to your interest and the interest of the company with which you work that you develop the acquaintanceship of other men in your profession. The fraternal spirit which has become an integral part of each Chapter has proved to be of great value to the individual members in coping with their day-to-day problems.

YOU need competent and qualified men around you. Every executive knows that the success of his work depends largely upon the calibre of men he has to assist him. The Society is training men for you, men, who have the particular understanding of the broad principles of industrial accounting. This is a decided advantage over men whose knowledge is drawn from experience in one or two companies.

YOU have an interest in the development of a higher standard of industrial accounting and the improvement of its status in industry. The Society has made great strides in placing industrial accounting on a higher plane. It is to your advantage to have a part in its continued advancement. The greatest satisfaction which one can have in life is knowing that he has contributed something to the advancement of his chosen profession for the benefit of those who will come after him. The activities of this Society provides ample opportunity for you to make this contribution.

YOU need to be kept informed of new developments in your chosen field. This comes to you through the publications. These articles bring you vital information as to what is being done by others. They form a source of reference for you in meeting your own individual problems.

Our 28th Annual Meeting will be the first occasion at which all Provincial Societies will be represented. We are very optimistic of the results and look forward to many innovations which will mark further progress in our Society so as to contribute to the maintenance of our highly respected professional standards.

COST AND MANAGEMENT

New Members

Bay of Quinte Chapter

J. F. Lang, Stephens-Adamson Mfg. Co. of Canada Ltd., Belleville
C. A. McCoy, Box 30, Madoc, Ont.

Edmonton Chapter

R. J. Labowitch, Jasper Auto Parts

Saskatoon Chapter

Dean J. H. Thompson, University of Saskatchewan
C. P. DeRoche, C.A., 301 Avenue Building
S. R. Campbell, Saskatoon Star-Phoenix Ltd.
W. W. Millar, Bowman Bros. Ltd.
H. W. Balfour, City Hall
D. E. Stewart, Saskatchewan Federated Coops. Ltd.
A. J. Dummer, Saskatchewan Federated Coops Ltd.
H. E. Butler, Dairy and Poultry Coop. Marketing Assoc.
G. E. M. Harris, C.A., Ferguson, Harris and Fingarson.
W. N. Robson, Saskatchewan Mutual Fire Insurance Co.
G. G. Patrick, 103 Bank of Montreal Bldg.
A. A. K. MacDonald, W. C. Wells Construction Co. Ltd.
D. J. Graham, Bursar, University of Saskatchewan
W. T. Scott, C.A., Ronald, Griggs & Co.
S. L. Graber, Bowman Bros. Ltd.

Victoria Chapter

F. J. Holman, 3214 Shelbourne Street

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COST AND MANAGEMENT

Chapter Notes

BAY OF QUINTE

The chapter held its closing meeting at the Dutch Mill Inn, Trenton, on Monday, May the 16th.

Being the Annual Meeting of the chapter, elections were held with the result that the following became the new Directors for the 1949-50 season:

E. E. Tummon, G. E. Ireland, W. O. Richardson, L. G. Lennox, Bob Taylor.

In order to assist the future executive in planning his programme the Chairman, Carl Casey, led an open discussion on "request" programmes for the coming year. Some very fine suggestions were brought out and in the course of the discussion it was agreed that the third Monday of each month was considered the most favourable meeting day.

KITCHENER

Twelve were elected to the directorate of Kitchener Chapter, Ontario Society of Industrial and Cost Accountants, at the annual election of officers held at the May meeting in Kitchener. They are Reginald Kidner, Francis Frank and Alfred Pautler, Preston; R. Harrison, C. R. Dorschell and E. S. Nicholson, Galt; Keith Watson, Fergus; Hugh MacDiarmid, D. G. Seebach, G. S. Clendenan, Kitchener; Rob Roy, J. C. Gross, Guelph. The directors will meet shortly to choose the chairman and other officers for the coming season.

G. Thompson of Canadian Westinghouse Co., Hamilton, was guest speaker with the subject "Pension Plans". He spoke for some length on the details of pension schemes and predicted that more would be heard in the near future in this regard as certain unions were beginning to have their negotiators include these demands in their agreements.

Mr. Seebach introduced the speaker and the thanks was by Mr. Roy. Chairman George Egoft presided and Mr. Dorschell welcomed the guests who included: W. S. Halfnight, Charles Hamoond, Harvey E. Moyer, Guelph; R. E. Royle, A. M. Jones, Galt; M. Jamieson, H. L. Jeffery, Fergus; D. Savage, Listowel, and S. P. Shantz, Preston.

A resolution was passed urging the setting up of an attendance trophy at the annual Ontario Society's meeting.

LETHBRIDGE

At the Annual Meeting of the chapter Jack Lakie was elected Chairman for 1949-50 season, with Jack Craine Vice-Chairman and William Hurst Secretary-Treasurer. The Directors elected were:

A. Brown, D. J. Brownrigg, Jack Craine, William Hurst, Jack Lakie, B. Warp.

The various committee chairmen presented very interesting reports which indicated continuous progress in the chapter. The student group under the direction of A. Brown and B. Warp had a very active year with a number of students having written their examinations.

COST AND MANAGEMENT

PETERBOROUGH

The Peterborough Chapter of the Society of Industrial and Cost Accountants of Ontario held their second annual meeting at the Empress Hotel last evening, May 16th, 1949. A review of the past year revealed an increase in membership of 18, bringing the total to 37.

Directors for the 1949-1950 season were elected. At a short directors meeting immediately following the dinner, Stanley R. Adamson of C.G.E. was elected Chairman, E. H. Jones of C.G.E., Secretary-Treasurer; Gordon Langhorne of A. Wander Ltd., Vice-Chairman. Other directors are L. Bearne, Outboard Marine; A. Pitchford, Quaker Oats; G. T. Cheate, Canadian Nashua Paper; A. Cox, Brinton-Peterboro; J. Burdon, De Laval, and the immediate past chairman, R. C. Bastable of Peterborough Lock.

Mr. R. C. Bastable, as retiring chairman, received the thanks of the members expressed by Mr. Blake Bell of Quaker Oats for his excellent service and guidance during the past year.

NIAGARA

The Niagara Chapter of the Society of Industrial and Cost Accountants of Ontario held their final meeting of the season last evening in the Welland House, St. Catharines.

The officers for the coming season are:

Donald Jones, Chairman, Canadian Carborundum, Niagara Falls; Charles Little, R.I.A., Vice-Chairman, Burgess Battery, Niagara Falls; Alfred Owen, Secretary-Treasurer, Interlake Tissue Mills, Merritton.

The directors for the season are:

A. G. Howey, R.I.A., Atlas Steels, Welland; James Skidmore, Stokes Rubber, Welland; Stewart Cherrie, Beaver Wood Fibre, Thorold; John McLaren, R.I.A., Foster Wheeler, St. Catharines; Alfred Chesher, Thompson Products, St. Catharines; James Thorpe, R.I.A., Electro-metallurgical, Welland; Hamilton White, Thompson Products, St. Catharines; Leonard Neal, Provincial Engineering, Niagara Falls; Maurice White, Electro Metallurgical, Welland; James Shea, Coles Hardware, St. Catharines.

The above named directorate indicates a fine representation of the accounting profession in industry for the Niagara Peninsula which should help to produce a very beneficial effect on business and management in this area.

ST. MAURICE CHAPTER

On Wednesday, May 18th, the Chapter held its closing meeting. At the Annual Meeting the following officers and directors were appointed for the ensuing year:—

Chairman, D. B. Peddie; First Vice-Chairman, John Hanna; Second Vice-Chairman, Sol Rennert; Secretary-Treasurer, Val Guillian; Directors, Dr. C. N. Crutchfield, G. Matte, R. Hebert, D. Scott, S. McNab, R. Cummings, J. Trudel.

The speaker for the evening was Mr. W. R. McGregor, Assistant Divisional Superintendent, Canadian Pacific Railway, Quebec Division. Mr. McGregor dealt with the narrowing difference between revenue and

CHAPTER NOTES

expenditure, and put the expenditure ratio at 99.6%. He stressed the enormous increase in the cost of equipment and drew attention to the statement of the President of the Canadian Pacific Railway that curtailment of capital expenditures and improvement expenditures would have to be made. Mr. McGregor also spoke about the necessity of the railways to Canadian development and hoped that some solution might be found to the financial problems of Canadian railways in the very near future.

WINDSOR

The Annual Meeting of the chapter was held on May the 19th at the Norton Palmer Hotel. Before dinner Chairman Bill Gatfield called for a minute of silence in memory of Gordon Appleby, who had recently passed away.

Election of Directors took place and the following were elected to form the board for 1949-50:

F. R. Bear, Chairman; G. D. Morgan, Vice-Chairman; A. Padmos, Secretary; Jack Copland, R. G. Millin, D. A. MacLean, H. Henderson, R. C. Forbes.

WANTED

ASSISTANT SECRETARY-TREASURER FOR THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF ONTARIO

Applications are invited for the position of Assistant Secretary-Treasurer of the Society of Industrial and Cost Accountants of Ontario.

The position will require residence in or around Hamilton, Ontario.

Under the direction of the Secretary-Treasurer of the Society, the work will include:

- (1) Acting as Secretary at meetings of Council and various Committees.
- (2) Keeping the books, records and accounts, and preparing statements as required.
- (3) Acting as Registrar for student courses and maintaining all records pertaining thereto.
- (4) Chapter promotion and liaison.

Some business experience in accounting and office management is essential. Education equivalent of senior matriculation is desired.

The responsibility and salary of the appointee can be expected to keep pace with the growth and development of the Society.

Apply by letter addressed to C.A.S.T., at the office of the Society, Hamilton, Ontario, not later than the 20th July, 1949, stating in detail business experience, age, marital status and salary desired.

Current Literature Digest

By W. W. HENDERSON, R.I.A.

In pinch-hitting as reviewer of current accounting literature for this June issue, I have an appropriate opportunity to pay homage to the efforts of one whose industry on behalf of the "Society" has been unstinted, sustained, varied in nature, and of a quality which has contributed materially to this Society's welfare and progress. An orchid to Harold Bricker, who normally writes this column.

Application of the Price Adjustment Concept to Depreciation Charges—by Michael Schiff, Assistant Professor of Accounting Graduate School of Business Administration, New York University. (N.A.C.A. Bulletin of April 15, 1949—Vol. XXX—No. 16.)

Methods which provide for current values to be reflected in fixed asset accounts and in depreciation reserves are in the accounting forefront to-day. Not that there is uniform agreement among accountants about them—but their protagonists are probably not wholly outnumbered by their antagonists.

Mr. Schiff's article treats the subject in a rather unusual way. Firstly, he suggests the logic of setting up depreciation reserves on a basis corresponding to current replacement values. Secondly, he suggests the use of price indices as the transmission system of gearing your present depreciation rates to such current replacement values.

The arguments presented in favor of such treatment are largely predicated upon the economist's viewpoint. It was not specifically stated, but the implication this reviewer read into the article is that fixed asset values are not converted to currently existent values—only the depreciation reserve. No definite method of reconciling the consequent non-correspondence of asset and reserve accounts was indicated, but it is assumed that differences in the reserve as compared with the fixed asset account, on disposition of the asset, are to be carried to surplus account as capital gains or losses.

In the matter of converting normal depreciation rates (be they level or sliding) to a closer equivalent of current values, Mr. Schiff uses factors secured from two sets of U.S. price indices (in Canada we could probably secure equivalent factors from the Dominion Bureau of Statistics).

The author exemplifies his method by the following illustrations:—

Asset acquired Jan. 1/39. Cost \$100,000.
Estimated life 5 years. Estimated scrap
value \$10,000.00

1939—(\$100,000—\$10,000)	20%	x	100.0—\$18,000	annual depreciation.
1940—(\$100,000—\$10,000)	20%	x	102.6—\$18,468	annual depreciation.
1941—(\$100,000—\$10,000)	20%	x	108.9—\$19,602	annual depreciation.
—1939 considered normal year.				

LITERATURE DIGEST

It will be observed that 1940 values were 2.6% higher than normal—1941, 8.9% higher than normal. Since 1919, only during the period 1931 to 1935 was the conversion factor less than normal.

Mr. Schiff's advocacy of this technique does not blind him to some of its defects and limitations.

For example, he admits that the central Bank's idea of retarding loans for capital expansion during prosperous times, so that that purchasing power may be available to help "pick up the slack" during depressed conditions, is defeated to some extent by the increased growth of working capital within a business—a result of the accelerated creation and augmented total values of depreciation reserves. A concomitant independence on the part of business can develop towards their search for funds from without.

"Value of Break-Even Points to Controllers"—by Mr. J. B. Fenner. (May 1949 issue of the Controller).

This is an expansive and comprehensive discussion of effective methods in reducing the level of the break-even point. No description of the mechanics of break-even point determination is included—it is assumed the reader is fully conversant with such.

Specific means of reducing this level is suggested by the author through investigations of the following organizational areas:—

1. Sales (in search of means of increasing gross profit by concentration of effort on most profitable lines, or conversely by addition of new lines which presage higher gross profits).
2. Manufacturing expenses and techniques.
3. Sales expenses and methods.
4. Distributing expenses and methods (latter to include stowage).
5. Financial aspects such as credit and inventory control, and liquidity of assets.
6. Expansion of facilities through mergers, purchases of additional plants, etc.

Even fixed expense comes under the eagle eye of scrutiny. It is the author's opinion that many times the name "fixed" belies the fact; and that reductions in non-variable expense are frequently possible of accomplishment. Co-operation between responsible managerial heads is stressed.

What Kind of Information do Labor Unions Want in Financial Statements (a symposium by Otis Brubaker, Lane Kirkland, William Gomberg, Nat Weinberg, Solomon Barkin, and others).

Published in the May 1949 issue of the Journal of Accountancy.

This undoubtedly is an article of contentious content. It is Labor's viewpoint, and this reviewer read it with interest. The moderation and objective approach of many of the symposium's participants seem manifest. For example, there is the statement of Mr. Lane Kirkland, member of Research Staff A.F. of L.:

"It is hardly possible to make reasonable demands, except by coincidence, without the facts that make possible a determination of what would be reasonable."

COST AND MANAGEMENT

The article stresses not only the desirability of Financial Report submission to Labor Unions, but belabors the ambiguity and obscurity of fact reflected in many such Reports.

Here is a pithy expression of one participant's views on operating statements (Mr. Wm. Gomberg, director, Management Engineering Department ILGWU).

"Quite frankly I feel that even more important than the operating statement in collective bargaining negotiations is the break-even chart accompanied by detailed scheduled breakdown of the basis for fixed costs . . . We want to see this basic document to determine how the organization arrives at wage and price policies. All of us agree that a financial operating statement is not a complete picture of the firm's prospects or past functioning. The break-even chart at least shows us something of the firm's method of economic thinking."

This article is too long for comprehensive review; but it is a useful contribution in the presentation of Labor's point of view.

STANDARDIZED AUDIT WORKING PAPERS

By Frederick Staples, C.P.A. (California and Wisconsin), 272 pages—The Counting House Publishing Co., Milwaukee.

This book will be of particular interest to those accountants who have a direct connection with internal auditing or public accounting, since it deals largely with procedures followed in the audit of a hypothetical manufacturing concern, The Blank Company, and the use of standardized working papers on the assignment.

Those in the auditing branch of the profession will be interested in the strong argument the author makes for standardization of working papers and the practicability of their use on the average audit assignment, as illustrated in the latter part of the book. Mr. Staples effectively refutes the contention that the accountant's initiative will be destroyed or the quality of the work lowered by standardizing the working sheets. He points out that proper supervision and explanation of the purpose of standardization should actually result in improved output by the auditing staff.

There are of course many practical advantages favouring the use of standardized working papers, not the least of which is the time saved, both on the field and in reviewing. The trend in the public accounting profession is more and more towards this standardization. It is unlikely there would be such a tendency if practising accountants did not find from their own experience that it was worthwhile.

Accountants and students will find this book and its accompanying set of standardized working papers of value from the standpoint of both practical work and study.

Personals

It has just been announced that Mr. J. S. Miller has been elected Vice-President and Director of the Gazette Printing Company Limited, Montreal, and Mr. J. E. Paisley has been appointed Secretary-Treasurer of the same Company. Both Mr. Miller and Mr. Paisley are members of the Montreal Chapter.



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Current Criticisms and Comments in Respect to the Presentation of Financial Statements

By H. A. JORDAN, C.A.

Gunn, Roberts & Co., Chartered Accountants

An article appeared in a Toronto newspaper in 1947 in which it was stated that a large percentage of the public did not believe the figures appearing in financial statements and also that people generally felt the statements are hard to understand. Similar articles have appeared regularly since then.

I entered public accounting practice in 1920 and I know I have not learned everything concerning the presentation of financial statements. I feel the current criticism of statements appearing in our press and technical journals is not entirely fair.

Generally speaking, I do not think there is any justification for the unbelief on the part of the public. There are some instances where the facts did not justify the figures presented. Accounting text books deal with some of the most sensational ones which were brought into the courts. However, I insist, these are the exceptions. Mostly, I think, such expressions of disbelief have stemmed from a lack of understanding of the basis of financial statements and a miscomprehension of what can and cannot be portrayed in them.

Speaking for the public accountant, I would remind you that he does not always determine the terminology or the form of financial statements. The Company prepares a statement or at least says how it is to be prepared and the public accountant, if he is satisfied, certifies that it correctly (not plainly or in the best possible way) sets forth the financial position of the company. I try to change headings or make explanatory notations, but often find that the client insists on doing it their way. When I was gathering the material for this talk, I had such an experience and feeling rather peeved about it all. I jotted down a few words on a piece of paper and dropped it into the folder containing my material. It reads "strong minded but not too well informed officials insist on wordings or style of presentation not helpful to the simplification of the financial statements".

But as I see it, the public is not sufficiently well informed to understand accounting terminology or the basis of accounting. After all that should surprise no one when you consider how long it takes an accounting student to master the subject. This was well illustrated in an article reprinted in *The Canadian Chartered Accountant*, in the February 1948 issue, entitled, "The Semantics of Annual Reports" by Mr. Don Knowlton.

To do this it is necessary to abandon the standard phraseology and to explain figures in narrative form. In other words, first a standard or legal form of financial statement must be prepared for the use of the management, the creditor and the tax officials. Then another statement should be prepared in narrative form to convey the facts given

PRESENTATION OF FINANCIAL STATEMENTS

in the standard statement to the employees and shareholders. Many of you already have seen examples of this kind of a statement and I think they must become much more common.

So it is my opinion that instead of trying to make everyone accountants so that everyone can understand technical financial statements, companies whose shares are held by large numbers of shareholders and those which realize the value of having their employees understand its financial position, must issue a statement expressing the component parts in language that will convey to the ordinary person the significance of the figures contained in a standard statement.

This is not easy. Business to-day is much more complicated than it was years ago. This remark applies more so to a group of companies owned in whole or in part by a parent company. I have here a statement where it takes a page and one half of fine print to state the principles of consolidation and explanatory notes to the financial statements. This is a statement that contains features that are not adequately described for me, a professional accountant, to understand even after reading the one and a half pages of notes; so what chance has the average shareholder to appraise its significance? Now to take such a statement and reproduce it in a form that could be understood by its many shareholders and employees is a job requiring exceptional skill.

Now, accounting terminology has been developed on an international scope so that an accounting phrase conveys the same meaning to all accountants in the same way that Latin terms mean the same in botany, law and medicine. So financial statements have naturally been developed along standard lines to be readily understood by those trained to read them.

But the problem to-day is to present financial statements in a form that can convey the correct meaning to the untrained readers who constitute the great majority of shareholders and employees.

Companies are required by law to make financial statements available to shareholders but it could be possibly said of some concerns that while they do so, the statement contains only the minimum required by law and the company doesn't care whether the shareholder understands it or not because the shareholder at that point has little to do with the success or failure of the company.

On the other hand it is becoming more apparent every day that employees are interested in the financial status of their employer and many companies go to considerable pains to present special statements designed to show not only the balance sheet position of the company but much of the operating picture. By so doing, the employee is more conscious of the relationship between his efforts and all the other factors entering into the company's operations and the profits made.

Another problem which presents itself is how much detail can you give in published statements, standard or narrative, without divulging vital information to your competitor who will use it to his advantage. You can readily understand that this is very important and it is a feature which the current critics of financial statements are prone to

COST AND MANAGEMENT

overlook or to fail to appreciate. Limited use can be made of graphs, unit figures, etc., to avoid giving complete operating figures.

Equally important is the problem of making the average man realize the basis of accounts. Accounting is not an exact science. The discussion of what basis should be used in the valuation of the inventory of merchandise on hand could last for hours and require many hours of research. The valuation of plant is another item. The dollar of 20 years ago is not the same dollar in use to-day. Should the plant then be shown on the balance sheet at original cost or at present day value? Much has been heard recently about basing the depreciation provision charged to profit and loss on present day values because the revenue dollar is to-day's dollar.

Then what about the most important asset of all the assets—goodwill? It does not appear at all on many balance sheets—and where it does appear is the valuation correct?

Before I close, may I bring you into your own back-yard? You surely know that a balance sheet of any the local mines in itself cannot indicate the value of the company. It must be read in conjunction with the engineer's report because the balance sheet deals with the past but the value of the company depends on the tonnage and dollar content of the mineral zone yet available.

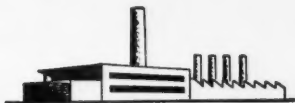
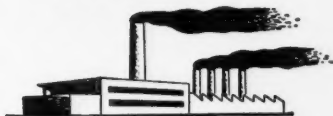
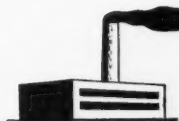
It is relatively easy to design the financial statement to show accurately within reason, the profit or loss in a given period but I cannot say that a balance sheet of a going concern can be said to accurately disclose the true value of a concern. There is too much mixing of present day dollars with yesterday's dollar.

This sounds like an admission of futility or frustration. It is not that, I can assure you. Much valuable information can be disclosed in a balance sheet. All I want to emphasize is that the balance sheet cannot and does not purport to give present day valuations of the business as a whole but it nevertheless should set forth correctly the information or facts contained therein.

In spite of all the limitations and difficulties, I am confident that accountants will improve the form and content of financial statements so that they can be understood by the average person who succeeds in keeping himself well informed and who will apply reasonable intelligence to the task of studying a financial statement—after all, they are not made so that he who runs can read—they do require careful reading.

going concern !...
going concern !...

gone concern ...



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Costing in the Fishing Business

Talk Given Before the Vancouver Chapter of the Society of Industrial and
Cost Accountants of British Columbia

Given by **G. MORT FERGUSON, R.I.A.**

Comptroller British Columbia Packers Ltd.

For anyone to undertake intelligently the study of cost accounting in any industry, or portion of an industry, it is essential that he have, or secure, some detailed knowledge of the peculiarities and operating background of the industry—where the raw products come from; how they flow into the plant; and, once arrived, their flow through the plant; and, finally, their ultimate disposition. I, therefore, will try to give you some detail of the operations of the fishing industry and the broad outlines of the costing.

It should be borne in mind, however, that the fundamental characteristics of the industry make impracticable, to an important extent, routine, regulated operations, such as may be followed so largely in manufacturing enterprises. In this business, too rigid a plan of operation and code of instructions would operate to defeat the very purposes for which they were designed. There are few important phases of operation which can be reduced to an established routine, controllable by operating schedules, reports and other customary means. A large measure of discretionary power must be vested in district superintendents and cannery managers, and to a much greater extent, this is true of the principal personnel of the executive management.

Due to the distant and widespread locations of fishing areas and canneries, the necessity for advance preparation of canneries, boats and nets, the engaging of fishermen and plant employees, etc., an operation plan for a season must be developed and put into motion considerably earlier than the date at which fishing begins. The variation in volume of fish runs, occurs with sufficient regularity so that they may be measurably anticipated, but there are no means of reliably estimating in advance what the actual degree of variation will be. Thus, while it is possible to develop an operating plan designed to meet expected conditions in a given year, there can be no assurance that the plan will be fully effective and of greatest economy.

The adopted plan, once set in motion, is in effect a firm advance commitment for a substantial portion of the annual operating expenditures. Little opportunity exists to adjust these expenditures downward if the anticipated run of fish does not materialize.

The fishing industry differs from most industries because of its seasonal nature and while we can measurably anticipate the runs we have no visual means of telling when the fish are arriving or in what quantities, because they are under water and cannot be seen. In the logging industry, for instance, a fairly accurate estimate can be made of the quantity of timber in any particular stand. From experience and engineering estimates a fairly accurate estimate can be made of what it will cost to bring the timber to tidewater or to the nearest sawmill.

COST AND MANAGEMENT

Eliminating destruction by fire, this timber is always available to the logging industry to be logged when the market is most opportune to do so. The same, in a different way, is also true of the mining industry. Geologists and engineers can give a fairly close estimate of what it will cost to mine in a certain type of terrain and, once proof of ore is established, mining can be carried on at any time the market conditions are sufficiently strong to give a profit to the operations, and, barring cave-ins or floods, the ore is always there to be mined. The fruit and vegetable canning industry more closely approximates the fishing, as the produce from the farm is always subject to weather, and a whole crop of one or more varieties may be ruined. However, the fruit and vegetable canners do not, in all cases, have the investment in farms, and such losses are absorbed by the farmers, and only the fixed overhead of the canners is lost. With the fish packers, their large investment and annual expenditure in fishing equipment (which compares to the farm) is a considerable cost factor together with fixed overhead in the event of a failure of the fish runs.

The principal species caught in the fishing industry of British Columbia are: Salmon, herring, halibut, pilchards, tuna, ground fish (grey cod, ling cod, sable fish, rockfish) and shell fish (crabs, shrimps and oysters).

Costs in the industry fall into two broad classifications, firstly, the fishing and fish collecting operations, and secondly, shore plant operations and overhead. In order to deal intelligently with the problems of accounting I will give you an outline of the types of fishing gear used in British Columbia, and type and approximate size of the boats, and later what disposition is made of the catches of this equipment to the different branches of the industry.

It is fundamental to realize that the relationship between the fishermen and the various fish processing and distributing companies is that of seller and buyer and not employee and employer. Fishermen are not engaged on a guaranteed wage basis but their earnings are directly proportionate to the volume and value of their catch.

The first type of fishing I will deal with is gillnetting. It is through this type of fishing that most men receive their initiation into British Columbia's fishing industry. Salmon gillnetting is carried on in practically all fishing areas on the Coast from the Naas River in the north to the Fraser River at the southern boundary of the Province.

A salmon gillnet consists of three principal parts—the web, the cork-line and the lead-line. The web is of linen and the size of the mesh varies, depending on the species of salmon sought, the district to be fished, and to some extent, on the choice of the individual fisherman. The cork-line is usually a cotton line of suitable diameter on which cedar floats are strung at regular intervals. The cork-line is attached to the top edge of the web, which it keeps afloat. The lead-line is a cotton rope to which are attached lead sinkers, regularly spaced. This line is fastened to the bottom edge of the net as a weight to hold it in position. The average gillnet is approximately 1,200 feet in length and about 25 feet in depth. In the estuaries of rivers and in the inlets, gillnets usually are set crosswise of the current. When a salmon of

COSTING IN THE FISHING INDUSTRY

suitable size swims into this web it finds itself unable to get through and, when attempting to withdraw, the gills become enmeshed.

Gillnets are used for the capture of all varieties of salmon, but more particularly for sockeye, coho and pinks.

The type of vessel most commonly employed in salmon gillnetting is from 30 to 34 feet in length and is powered with a 10 to 18 horsepower gas engine. In some of the newly constructed gillnet boats, however, there has been a tendency to install highspeed engines varying from 52 H.P. to 110 H.P. At present prices a new gillnet boat completely equipped with an 18 horsepower engine, drum, electrical equipment, etc., will cost in the neighbourhood of \$3,500.

The fishing companies in practically all cases purchase the nets and material and make up the nets ready for fishing. The nets must be serviced during the year with bluestone; torn meshes and lines repaired, etc. Charges are made to the fishermen on a pre-arranged schedule for these services and the resultant debit or credit from this operation enters into the companies' costs.

The next type of fishing used extensively in British Columbia is salmon seining. A salmon purse-seine is an entirely different type of net from the gillnet. The web of a purse-seine is made from cotton twine. The size of the mesh varies somewhat, but must not be so large that the fish can get "gilled" in the meshes, and by regulation must not be less than $3\frac{1}{2}$ inches. In addition to cork-line and lead-line and the necessary web, a purse-seine is fitted with large brass rings fastened to the lead-line with pieces of rope about 6 feet long. These rings are spaced about 12 feet apart along the entire length of the net, and a long rope known as the "purse-line" is threaded through each ring in turn. This line is used to close the bottom of the net when the school of fish is encircled and likens the net to an inverted purse, thus giving it its name "Purse Seine".

The essential equipment used for seining consists of a seine boat with a stout mast and heavy swinging boom, with the necessary standing and running rigging; a power-driven winch, to lift the brailer from the water when loaded with fish from the net (this winch is usually located on deck close to the mast); a turntable on the stern; and a large work skiff which is towed astern and used when the net is cast.

The vessel used in seining is larger and more powerful than the gillnet boat. Seine-boats are from 60 to 75 feet long with from 12 to 18 feet beam, drawing up to 8 feet of water, and vary in value from \$25,000 to \$45,000 and are fished by a crew of five to seven men. Ownership of these vessels is divided between companies operating in the industry and individual fishermen. In the case of company owned craft these vessels are usually entrusted to one experienced skipper who assembles his own crew, and the resultant earnings from the vessel are shared between the owning company and the fishermen on a pre-arranged basis. Individually owned salmon seine boats may be fished on an independent basis or may be chartered to any one of the several operating companies.

The ownership of the salmon seine net follows the same pattern as the seine boat.

COST AND MANAGEMENT

The principle of pilchard and herring seining is identical to that of salmon. In this highly specialized branch of the industry a very large investment is required for equipment. Vessels used vary in length from 70 feet to 80 feet and cost in the neighbourhood of \$70,000 when completely equipped with a seine, winches, sounding devices, radio-telephone and all the other equipment which is necessary for this type of fishery. The fishing units engaged are all either owned or chartered by the operating companies and are manned by crews who have been engaged by the skipper of each individual vessel. The skipper is chosen by the company on the basis of his experience and his ability to catch fish. Pilchard seining occupies the period roughly from the first of July to the first of October in each year, while herring seining commences during the first part of October and will continue through to approximately February 15th of the following year.

As stated previously the selection of crews for these fisheries is done by the individual skippers on each seine boat. The usual crew employed is seven men for each seine vessel.

The seining operations described in the foregoing are dependent upon the servicing function of a large packing and tending fleet which is auxiliary to the actual fishing fleet. The packers and tenders take delivery of the catch from the seine boats on the fishing grounds and deliver the catch to the canneries or reduction plants where the processing operation is carried out. The crews of such vessels vary from four to five men, depending on the size of the vessel. Their work varies in each seining operation but, unlike fishermen, they are company employees.

The three aforementioned types of fisheries constitute those which chiefly affect the costs of the companies. Each type of fishing is designed to fit the particular characteristics of the species being fished. In addition to the gillnetting and seining, there are the following methods of fishing used in British Columbia, mostly by independent fishermen who deliver directly to the plants:

1. Trolling.
2. Halibut Fishing.
3. Long Lining.
4. Beam Trawling.

In all of the above cases the fish are ultimately paid for by the operators on a landed cost basis, and it is not difficult for the accountant to arrive at a fixed cost per unit or pound for the raw product purchased. In some cases the fish are offered by the fishermen to the operators at the going market price for the product caught, but in the case of halibut and some troll caught fish particularly, the raw products are marketed on an exchange and the various operators interested bid on the loads, or "trips" as they are called, and the fish go to the highest bidder.

Fish from salmon gillnets and seines are, in practically all cases, collected by company owner or chartered collectors. The size of the collectors and the number of the crew on the boats will vary with the type of fishing and the area from which the fish are being collected.

Delivery is made to the operating plants and the fish are then distributed to the various operations affected.

COSTING IN THE FISHING INDUSTRY

The present processing operations largely fall into four categories. Not necessarily in order of importance these are:

1. Fresh and Frozen Fish.
2. Fishery Reduction.
3. Canned Salmon.
4. Sundry Fish Products, such as Smoked Fish, Fish Pastes, Sardines, etc.

The processing of fresh and frozen fish is not a difficult one to follow, as it consists largely of receiving the fish, washing and dressing the fish ("dressing" means to remove the head, intestines, fins, etc.) placing them in sharp freezers in the cold storage plant, and, once frozen, transferring them to large storage rooms to be stacked and held ready for shipment.

A recent development in the frozen fish field, the preparation of packaged frozen fillets, has considerably increased the difficulties of costing such operations. While comparatively simple of operation, due to a small amount of processing machinery, the costing of the finished, frozen product does pose some difficulties in accounting. Fish are purchased in "round" form, which means before head or entrails have been removed: Some, "dressed heads on", which means with entrails removed but the heads left on: some, "dressed heads off", which means ready for freezing after inspection and washing. Fish are often taken to the processing plant from long distances and, due to the nature of the product, in the packing there is a natural shrinkage of weight between what has been bought and paid for, and the actual amount frozen.

These elements all have to be taken into consideration when arriving at the cost of the particular species of raw product being frozen.

In filleted fish the raw product is weighed in and again weighed into the freezers when in the filleted form. From standards which have been developed from experience there should be a normal wastage allowance for removed skin, bones, etc., and this must be checked carefully to see there is not undue wastage. The cost of the finished raw product per pound is then arrived at by dividing the total poundage of finished product into the total cost of raw fish purchased.

Added to the cost of raw product is, of course, packaging in the case of fillets, or boxing in the case of frozen product, and in addition there must be an allocation of overhead. As the difficulties of such allocation are similar I have dealt with this subject in more detail under salmon canning.

Fishery reduction largely covers the manufacturing of herring and pilchards, and waste items (such as heads, fins, entrails, etc.) from the other operations, into edible fish meals and oils. During the war period large quantities of herring were canned for cheap food purposes but, due to present market conditions, the outlet for this product has largely dried up.

In the manufacture of fish meal and oil the fish are cooked in large steam cookers, after which the whole emulsion drops into large presses, during which process the oil and water is pressed from the fish. This is run off into large settling tanks and the free oil rises to the top and the remaining emulsion is run off into a further process which extracts

COST AND MANAGEMENT

the remaining fish solubles and leaves only the pure water to be dumped as wastage. The solids left from the first pressing are conveyed to dryers and thoroughly dried, ground and sacked as fish meal.

The raw product is purchased from the fishermen on a tonnage basis and delivery made to the plants in company owned packers or scows.

While it is true that volume will influence the per tonnage landed cost of raw product and fixed overhead, the costing of reduction operations are much simpler than the erratic and diversified canned salmon operations. Here you are dealing with only one type of fish from which you get three finished products: fish oil, fish meal and fish solubles; the last, up until very recent times, a waste product.

In a company producing diversified products various methods of allocating overhead may be employed but, once the basis has been arrived at, the distribution of the amount in the case of fishery reduction presents no problem.

The salmon canning operations present an entirely different problem owing to the greater use of diversified machinery and the species of fish canned.

All fish are purchased from the fishermen on a poundage basis. When the fish are delivered their weights are checked at the plant in order to confirm the purchased weight on the grounds.

The raw product then goes to the "Iron Chink", a machine wherein the head, fins and entrails (which go to the reduction unit in most up-to-date plants) are removed. They then proceed on conveyors to an inspection table where they are checked and given a final washing. From there some species, particularly sockeye, go to a cutting machine, which cuts the fish into sizes for the cans to be filled, and then are conveyed to the filling tables where they are hand filled into the cans. In most modern plants they are now fed as a whole fish into a machine known as a "filling machine", which cuts them into the right sizes and fills them into the cans. The filled cans proceed on a conveyor through a "salting machine"—salt being the only outside ingredient which is added to canned salmon. From this machine they go through the "clinchier", a machine which loosely clinches the lid on the can. The final machine is the "vacuum machine", which creates a vacuum in the can and, at the same time, seals the lid. These machines put through cans at the rate of 120 per minute. The cans are then loaded on cooler trays, placed on trucks, and finally wheeled into the "retorts" for cooking, which takes one hour and twenty minutes. Unlike canned vegetables, salmon, after cooking, must be allowed to cool, which usually takes about 24 hours before the tins can be labelled and boxed. This is one of the reasons why salmon canneries require much larger buildings and warehouse space than vegetable canneries of like capacity.

The foregoing has given you a general outline of the fishing and collecting end of our business, the processing and canning, and I shall now try to present a general outline of the procedure of costing.

Numerous articles have been written on the subject of cost in this industry, all of which may be said to confine themselves to the mechanical problems of bookkeeping and accounting rather than to

COSTING IN THE FISHING INDUSTRY

the problem of the allocation of costs over the several species which go to make up the annual pack of the average fishing and packing company. The difficulties inherent in the determination of species costs have been the subject of much controversy.

As the need for proper allocation exists, no apology is offered for the following suggestions, which are made with a full appreciation of their controversial character: the objects of a costing system, generally speaking, are twofold:—

- (a) to provide a historical record for comparative and statistical purposes;
- (b) to provide the management with a financial thermometer, as it were, by which the temperature of an operation may be taken at frequent intervals, say day by day, or month by month.

While this may sound axiomatic to accountants, it should nevertheless be considered in its relationship to the fishing industry in which, owing to its peculiar features, there is little scope for the latter object. The sea is not a factory. The raw material cannot be provided in advance of requirements nor even guaranteed at all. There is so little direct relation in the monthly accounts between the expenditure of money and the production of canned salmon, that it is no exaggeration to state that the only logical unit of time for a statement of operating costs is the completed season.

It may happen that the bulk of a season's catch is made during a period of two or three weeks, while the expenses of operating the plant may have extended over six months. Thus it becomes obvious that any attempt at monthly cost statements before the completion of the season's work would probably be valueless as an indication of species costs, because the expenditure of funds and the production of fish do not synchronize.

Budgets, which I shall deal with later, may be prepared, based on past experience and on anticipated run of fish. Such devices are undoubtedly valuable to the management, because they may be compared month by month with the actual results. They may serve as the best available substitute for a thermometer, but they do not constitute the historical record.

The management can exercise little control over the volume or value of the pack or over the period of time in which the pack is completed. The open seasons for each species are determined by the Fisheries Department, and the anticipated run of fish may not materialize, as sometimes happens. If the cost sheet can only be presented when it is too late to be of any value as a guide to the management, it might well be asked if this discussion is prompted by nothing more serious than the obsession for justifying costing.

The plausibility of such questions is admitted. If these were the only considerations, then the old-fashioned individuality in accounting systems might possibly be as useful as any other.

With the continued encroachment of Government influence and regulation into all phases of business, it is evident, however, that the necessity has arisen for uniformity in theory of determining costs throughout this industry. If the industry does not take the lead in this

COST AND MANAGEMENT

matter, it is likely that some Government Department sooner or later will.

There are four principal species of salmon on the Pacific Coast. These, in their order of market preference, are as follows:—Sockeye, Cohoe, Pinks, Chums.

In addition to these, a season's catch often includes small quantities of certain other species, which have to be dealt with in the accounts although, owing to their limited volume, are relatively unimportant. These are:—Bluebacks, Red Spring, Jack Spring, Pink Spring, Steelheads, White Spring.

I have ignored the latter for the sake of convenience. In practice their treatment in the accounts will depend on their volume which, in the case of most plants, is usually negligible.

The elements of cost in a canning or fresh and frozen or reduction operation may be divided under three basic classifications comprising eight sub-headings as follows:—

A. Direct Expenses

1. Raw Fish
2. Unit Costs

B. Fishing and Collecting

3. Fishing Expenses.
4. Collecting Expenses.
5. Fish Camp Expenses.

C. Indirect Expenses

6. Plant Expenses.
7. General and Administrative Expenses.
8. Depreciation.

The foregoing are briefly dealt with hereafter in the above stated order:—

A. DIRECT EXPENSES

1. Raw Fish

It is many years since the principle of paying different prices for different species of raw fish was established. Apparently, so far as historical records are available, no sound basis other than sales demand exists for the variation between the prices paid for different species of similar weight. Over the course of years the red sockeye salmon has established itself as the preferred fish in most markets and it consequently commands a higher price than the lower grade species.

No difficulty is presented in the distribution of the costs of raw fish to the various species. The fish are purchased direct from the fishermen and the distribution to the proper species is a mere matter of bookkeeping.

2. Unit Costs

The expenses coming under this sub-heading of Unit Costs include:—

- Cans and Cases, or Cartons and Boxes for fresh and frozen, and Sacks for reduction products.
- Freight on Cans, Cartons or Sacks.

COSTING IN THE FISHING INDUSTRY

Direct Labour.

Freight from Plant to Shipping Point.

Other miscellaneous expenses that are susceptible of direct allocation.

Being part of the processing expenses they should, having regard to the costing sequence of the operation, be dealt with after the Fishing and Collecting Expenses. The discussion of these expenses out of their proper sequence is merely a matter of convenience, arising out of their place among the direct charges.

No difficulty is met in the distribution over species of these expenses. The cans and cases, etc., and the labour are the two largest items.

B. FISHING AND COLLECTING

3. Fishing Expenses

These consist of:

Operating costs of seine boats and gillnet boats, including charters and supplies, less credits;

Net purchases and cost of preparation, less credits;

Captain's bonus, transportation of crew, etc.

4. Collecting Expenses

These consist of:

Cost of operating collecting boats and scows including charters. Ice supply and miscellaneous.

The total expenses under this classification are likely to approximate 14% of the entire cost of pack. The proper method of distributing them over the several species may be the subject of controversy. The common practice has been to make the distribution on a per case basis, but this is inaccurate. It is the object of the following suggestions to emphasize the importance of making the distribution on a basis that is as nearly as possible direct. The direct, or nearly direct basis, is thought to be within the scope of practical bookkeeping. During certain periods of the season, it may happen that the fishing equipment is used predominantly for a particular run of one kind of fish. On such occasions a direct distribution should be a simple matter. At other periods, the equipment may be employed for a mixed catch and this does present problems of bookkeeping. It is suggested that the actual distributions in the accounts will be made, not in the height of the season, but at a later date. It must be recognized that in practice the accounts are only one of the plant bookkeeper's responsibilities. During a heavy run of fish his duties are varied and incessant. Boats must be furnished with supplies from the store, fish arrive at any hour of the day or night, there are payments to be made and incoming and outgoing shipments to be supervised which, in addition to his normal work, leave him little time for the refinements of bookkeeping. Under these circumstances the ultimate distribution of the fishing and collecting expenses must depend on the maintenance of adequate statistical records as regards the dates of catches. From such records the bulk of the Fishing and Collecting Expenses may be allocated on a basis that approximates direct. Each district is likely to have a different problem in this respect.

COST AND MANAGEMENT

In the Fraser River district, for instance, the company collectors operate in competition with outside collectors. The outside collection fee might be used as a basis for the distribution of the company's collection expenses, for instance, x cents for a sockeye and y cents for a chum and so on, with an ultimate proration of any debit or credit balance at the close of the season.

In the Smiths Inlet, Rivers Inlet, Queen Charlotte Islands and Johnstone Straits districts the problem is simplified by the habits of the fish. Here the different runs of different fish come in distinct seasons, so that the actual expenditures are susceptible of a direct distribution.

In the Skeena, Naas River and Central districts the problem is complicated by a mixed catch of fish and the overlapping of the different species. In these districts it may be found that some arbitrary method of distribution is unavoidable. Even in these districts it is thought that the principle of direct distribution may be carried out to a substantial extent. Whenever this is possible it goes without saying that it should be done.

Whatever method is adopted and however fully the records are kept, it is likely that a proportion of the Fishing and Collecting Expenses cannot be allocated to any one species of fish. This will leave no alternative but to use some arbitrary method for the disposal of the unallocated proportion, and the question as to what method is least open to criticism is bound to arise and bound to be controversial.

As a means of equitably disposing of the unallocatable proportion, a per diem basis offers certain attractions. The mechanics of this method are simple.

The expenses will be prorated to the species on the basis of the number of days in which each species was fished in relation to the total fishing days. The immediate question arises as to the definition for practical accounting purposes of a "fishing day". One of the larger operators in British Columbia has adopted for the purpose a minimum pack of 100 cases of one species in a day. The choice of 100 cases is based on past experience, which suggests that the days in which the pack of any one species is put up in volume less than 100 cases are too infrequent to constitute an important consideration. If less than 100 cases were packed in a single day, the common experience is that the fish so canned would be the advance guard or the rear guard of a proper run. However, the arbitrary nature of the formula is unquestioned and is, therefore, open to challenge. A hypothetical instance might be cited in which 99 cases a day were packed for 10 consecutive days. This, if the formula were carried out literally, would result in a pack of 990 cases which would not bear their proper proportion of fishing and collecting expenses.

How, then, is the difficulty to be overcome? Everyone who has studied the subject will sympathize with the Plant Accountant. The diversity of the operations and of the conditions render it imperative to allow him a discretion and a latitude in the choice of alternative methods of distribution. If, owing to the exigencies of his particular problems, the "per diem basis" fails to meet his needs, some alternative method should be available. For this purpose it is suggested that the "weekly

COSTING IN THE FISHING INDUSTRY

per case basis" should be borne in mind as another alternative. The mechanics of this method and of its practical application to the cost statement is described in a later part of this talk in connection with the allocation of the indirect expenses.

There are thus four alternative suggestions for the distribution to species of the fishing and collecting expenses which may be summarized as follows:—

1. Direct basis.
2. The basis of rates charged by independent collectors.
3. The per diem basis.
4. The weekly per case basis.

Owing to varying conditions in different districts, it is dangerous to be dogmatic on the subject of fishing accounts. A basic principle may, however, be enunciated. The recognition of the principle of direct distribution of the expenses wherever possible is the important point. Those expenses that cannot be so dealt with should be allocated on some intelligible basis. The precise method of giving effect to the basis must be left to the accounting staffs.

In some areas former canneries have been closed down and now are used as fishing stations to supply operating plants. These camps generally have a manager and bookkeeper, prepare nets in the Spring and carry a complete set of books and accounts with the exception of canning costs.

At the end of the season, the total expenses of the fish camps should be transferred to the plant where the catch has been processed. It is suggested that the transfer should be made and the consolidation of the Plant and the Fish Camp Expenses should be effected in such a way that the expenses of the Fish Camp may find a place in the Plant Accounts under their proper classifications of:—

Direct Expenses
Fishing and Collecting Expenses
Indirect Expenses.

By following this suggestion it will be a simple matter to ascertain the cost of the fish from the Fish Camp and also the proper classification of expenses in the final consolidation of the accounts of all plants.

Before leaving the subject of the Fishing and Collecting Expenses, consideration should be given to the treatment of the boat expenses. The boats engaged in a fishing operation are likely to include some chartered from independent owners and others belonging to the company's own fleet. In the case of chartered boats, the rate specified in the charter party will be charged to the operations direct. In the case of the company-owned boats, it has been found convenient to charge the operations performed and credit each boat with amounts corresponding to prevailing charter rates. The actual operating expenses would be charged to the accounts of the individual boats, thereby offsetting the credits previously recorded. In practice this would leave a small balance (debit or credit) on each boat's account at the close of the season. These open balances are not likely to be large, but they must nevertheless be disposed of. To make these adjustments, it is suggested that the open

COST AND MANAGEMENT

balances of the boat's accounts be transferred to the General Administrative Expenses for the final proration over the several species, as will be discussed later.

C. INDIRECT EXPENSES

The expenses classified under this heading include the following:—

6. Plant Costs

- Cannery Manager and Bookkeepers' salaries.
- Foreman and other Plant Labour.
- Transportation of Cannery Crew.
- Plant Licences.
- Insurance.
- Rentals of Machinery.
- Repairs and Maintenance.
- Heating.
- Light and Water.
- Property Taxes.
- Mess House Costs.
- Credits for Operation of Store, Post Office and sales of Gas and Oil.

7. General and Administrative Expenses

Proportion of Head Office overhead expenses covering management and clerical salaries, rent, light, etc.

8. Depreciation

This item includes depreciation on the plant, buildings and equipment, etc.—distributed generally on a physical basis.

The total expenses listed above and embraced by the classification of Indirect Expenses are incurred on those phases of the operation which are incidental to and part of the unavoidable costs of packing all kinds of fish, regardless of their relative volume, value, or time spent on their production. It will be seen that the classification includes the plant costs and a proportion of the Head Office Expenses and Depreciation. As these expenses in the aggregate are likely to approximate 18% of the entire cost of pack, it is evident that its distribution over the several species of fish is a matter of importance. It forms, in fact, so large an element in the costs, that unless there is some uniformity of practice in its distribution to the several species, the operations of two canneries of one company working under similar conditions might show varying results.

For the sake of convenience there is no apparent reason why the three items should not be grouped as one for the purpose of the distribution to the species.

Before dealing with the distribution of the indirect expenses to the several species, a word is necessary on the distribution of the General Administrative Expenses at Head Office. This step must be taken before the individual costs of operating each plant can be ascertained. The greater part of the Head Office expenses are probably untraceable to any one plant or operation, having been incurred, as the caption implies, on general administration. Any expenses that are directly

COSTING IN THE FISHING INDUSTRY

traceable should, of course, be directly charged. The balance must, in this as in other cases, be arbitrarily disposed of. It is, therefore, suggested that such expenses should be prorated over the several operations, such as Salmon Canning, Pilchard, or Herring Reduction, Fresh and Frozen Fish, etc., and thence to the individual plants on the basis of the respective cash expenditures on each operation and at each plant in relation to the total expenditures. This follows the principle of distributing the unknown on the basis of that which is known. Depreciation is intentionally omitted from the calculation as being unrelated to the season's cash expenditures.

Can a formula or choice of formulae be found that will fairly reflect the costs of the different species of fish by distributing to each its proper proportion of the indirect expenses, having regard to the varying conditions which prevail on different sections of the Coast? Numerous methods have been suggested. The commonest in practice is probably the "per case basis". This, however, will not stand the test of analysis. A cannery, for instance, might pack 5,000 cases of sockeye in two months and 50,000 cases of chums in two or three weeks. The indirect expenses for the whole season might amount to \$30,000.00. How can it be suggested that the proportion of this figure which is applicable to a case of sockeye is the same proportion which is applicable to a case of chums? In isolated cases a cannery operates solely for a certain species of fish—say sockeye. It is true that in the course of the season some lower grade fish will find their way into the nets and thence into the cans. In such cases, however, the lower grade fish, being fortuitous, is obviously a by-product. It is suggested that in cases such as this, the logical course is to charge the whole of the indirect expenses to the sockeye pack, being the sole object for which the expenses were incurred.

In the majority of plants, however, the indirect expenses cannot be disposed of with such ease. The venture is undertaken for the purpose of packing any and all kinds of salmon. The season's work is completed with a mixed pack. There is probably no consistent time element in putting up two packs similar in volume but different in species. Heavy expenses may have been incurred at the opening of the season in putting the plant into working order with no compensating production for several weeks. On what principle should each case be loaded with its proper proportion of the \$30,000.00 I mentioned?

The "per case" basis is overruled because it is too remote from reality. The seasonal basis is overruled because the different species were caught and canned concurrently but in varying volume and it would not dispose of the barren period before the run of the fish. The sales realization basis has been suggested, but this is also remote from reality. It has also been suggested that the direct expenses could be made use of as an indication for the proper distribution of those that are indirect; in other words, to spread what is unknown on the basis of what is known. The largest single item in the direct expenses, however, is the cost of the raw fish and the price of this is influenced by what it will fetch on the market after being canned. To make use of the direct expenses as a basis for the distribution would thus be little

COST AND MANAGEMENT

more than a modification of the sales realization basis, which has been rejected.

After due consideration of the various alternative methods that have been outlined it would appear that, owing to the nature of the industry, none is proof against criticism.

The suggestion received with least disfavour by the principal members of the industry in British Columbia is a refinement of the per case basis, which weights the weekly packs by introducing a time element. For the purpose of this discussion the method will be referred to as the "weekly per case basis".

Its application would be as follows:—

The entire season would be split into as many weeks as were devoted to actual fishing.

The indirect expenses would be divided by the number of fishing weeks, say fifteen, so that if the total expenses amounted to \$30,000.00, each fishing week would be represented by an expenditure of \$2,000.00. Finally, a distribution to the various species of every fishing week's \$2,000.00 would be made on a per case basis.

Thus a small pack made in a lean week would be weighted with a higher per case cost than a large pack in a prolific week, and the distribution of the expenses for the entire season would approach reality.

It is admitted that this method is an arbitrary one and, therefore, open to criticism. A run of fish might come, for instance, on the last day of a week and so be weighted down with a whole week's expenses. The "weekly per case basis" does, however, suggest certain advantages over the other alternative methods, being simple of application and conforming to the catches of fish as they may be made week by week. The choice is intended to represent the method which is apparently the least open to criticism by reason of its arbitrary character.

An examination of the cost of pack accounts suggests that the classified expenses in relation to the total costs of pack are likely to be found approximately in the following percentages:—

Direct:	Percentage of Expenditure
Raw Fish	40
Unit Costs	28
	68
	—
Approximately Direct:	
Fishing Expenses	7
Collecting Expenses	7
	14
	—
Indirect:	
Plant Costs	6
General Administration Expenses	6
Depreciation	6
	18
	—
	100
	—

COSTING IN THE FISHING INDUSTRY

From the above table it may be seen that in a typical cost of pack, the distribution of 68% of the expenditure raises no question. Its proper distribution is merely a matter of bookkeeping and the prevailing practice throughout the industry is sound. I have, therefore, primarily dealt with the proper treatment of the balance, amounting to 32% of a representative cost of pack.

The other controversial topic in the fishing industry is the matter of budgetary control. The difficulties that have been outlined in developing costing also apply to budget, particularly so for those companies which have diversified operations. Although from a study of the cycle runs of fish and Government spawning reports a forecast of the production may be made, the question of what will be done with the fish when caught also enters the picture. Market conditions prevailing at the time the fish are being caught will influence the decision as to whether the product is to be canned, frozen, filleted or shipped fresh.

However, there is nothing to prevent the budgeting of those expenditures which are controllable or, in other words, the 32% of our costs which are and must be made regardless of whether a fish is caught or not once we decide to operate.

These expenditures may be broken down into monthly figures accumulated and a comparison of actual expenditures made for management guidance.

Charted you would have a figure of costs which must be overtaken before profits are indicated. This can be done by operations, or consolidated, or both.

During the operating season, or that period after fishing commences, the difference between the known cost of fish and unit costs taken from the net sales realization of the pack produced will give a figure that will eventually overtake the fixed expenditures. When these expenditures will be overtaken is difficult to forecast owing to the reasons I have given, but a budget of controllable expenditures is a definite guide to management and the barometer of operations during difficult times.

In conclusion it might appear that all I have raised are controversial points of cost accounting in the fishing industry, rather than outlined conclusive opinions of accounting. I have tried to outline this on an industry basis rather than deal with the opinions of one company. However, I hope I have given you sufficient detail for food for thought, and can assure you if any of you can outline an infallible costing system for the fishing industry you will have accomplished something that has been worked on for 50 years of its history, only with refinements made to cope with changing economic conditions and Government requirements.

« STUDENT SECTION »

Comments by A. V. HARRIS, C.A.

ADVANCED COST ACCOUNTING

Problem 6

The Cost Accountant of the Brown Tinting Company maintains a process cost accounting system, with three separate departments. The following is a summary of his costs for the month of March:—

	Material	Labour	Applied Factory Burden
Department 1	\$ 72,300	\$ 8,480	\$ 15,640
Department 2	3,500	54,280	26,420
Department 3	7,480	11,620	5,280
	\$ 83,280	\$ 74,380	\$ 47,340

Reports from the Production department manager showed 600 units started in process, with no opening inventories at the first of the month. In department 2, 10 units were spoiled, of which 4 units were spoiled because of defective materials. In department 3, 5 units were lost. At 31st March there were 30 units remaining in department 3, estimated to be 50% completed as to labour and factory burden, expenses, but all material had been added. The Company's practice is to distribute all normal spoilage costs among the units remaining in process and completed on the basis of Actual number of units, regardless of stage of completion. Units spoiled because of defective materials are classified as completed units, and such costs are transferred to Actual overhead expenses.

Required:—

1. A cost statement showing the cost per unit for each process, the accumulated unit and total cost at the end of each stage of production and the value of inventories.

2. Journal entries to record all transactions for the month.

Note:—

Unit costs should be calculated to the nearest cent only.

Solution to Problem 6.

ADVANCED COST ACCOUNTING
BROWN TINTING COMPANY
Statement of Unit and Cumulative Units Costs

March

	Department I		Department II		Department III	
	Cost	Unit	Cost	Unit	Cost	Unit
Material	\$ 72,390.00	\$ 120.50	\$ 3,500.00	\$ 5.89	\$ 7,480.00	\$ 12.79
Labour	8,480.00	14.13	54,280.00	91.38	11,620.00	20.38
Applied Factory Burden	15,640.00	26.07	26,420.00	44.48	5,280.00	9.27
Cost in each process	\$ 96,420.00	\$ 160.70	\$ 84,200.00	\$ 141.75	\$ 24,380.00	\$ 42.44
Cost transferred .....	.....	.....	96,420.00	160.70	179,403.72	304.07
Accumulated costs	\$ 96,420.00	\$ 160.70	\$ 180,620.00	\$ 302.45	\$ 203,783.72	\$ 346.51
Amount due to spoilage .....	.....	.....	\$ 964.20	\$ 1.62	\$ 1,520.35	\$ 2.60
Total costs .....	.....	.....	.....	\$ 304.07	.....	\$ 349.11

COST AND MANAGEMENT

	No. of Units	No. of Units	No. of Units
Units completed and transferred	600.00	590.00	555.00
Units in process .....	.....	.....	30.00
Units spoiled or lost .....	.....	10.00	5.00
	<u>600.00</u>	<u>500.00</u>	<u>590.00</u>
Costs Transferred	\$ 96,420.00	\$179,403.72	\$193,755.32
Abnormal spoilage		1,216.28	
Work in progress		4@ \$304.07	10,628.40
	<u>\$ 96,420.00</u>	<u>\$180,620.00</u>	<u>\$203,783.72</u>

NOTES

Process II: Units completed in terms of completed units	594.00
Process III: For material cost in terms of completed units	585.00
For labour cost in terms of completed units	570.00
For overhead cost in terms of completed units	570.00
Department II. Spoilage, 6 units @ \$160.70 = \$ 964.20	
Department III. Spoilage, 5 units @ \$304.07 = \$1,520.35	

STUDENT SECTION

Inventory—Department 3

Material Dept. 3	30 units @	\$ 12.79	\$ 383.70
Labour Dept. 3	15 units @	20.38	305.70
Burden Dept. 3	15 units @	9.26	138.90
Spoilage Dept. 3	30 units @	2.60	78.00
Cumulative from Dept. 1 & 2	30 units @	304.07	9,122.10
			\$10,028.40

Journal Entries

	Dr.	Cr.
Dept. 1. W.I. Process	\$ 72,300.00	
Dept. 2. W.I. Process	3,500.00	
Dept. 3. W.I. Process	7,480.00	
		\$ 83,280.00

Materials

To record materials charged to Production

Dept. 1. W.I. Process	\$ 8,480.00
Dept. 2. W.I. Process	54,280.00
Dept. 3. W.I. Process	11,620.00
	74,380.00

Accrued Payroll

To record labour charged to Production

Dept. 1. W.I. Process	\$ 15,640.00
Dept. 2. W.I. Process	26,420.00
Dept. 3. W.I. Process	5,280.00
	47,340.00

Applied Manufacturing Expense

To record expense applied to Production

Dept. 2. W.I. Process	\$ 96,420.00
Dept. 1. W.I. Process	96,420.00

To transfer cost of production from

Dept. 1 to Dept. 2

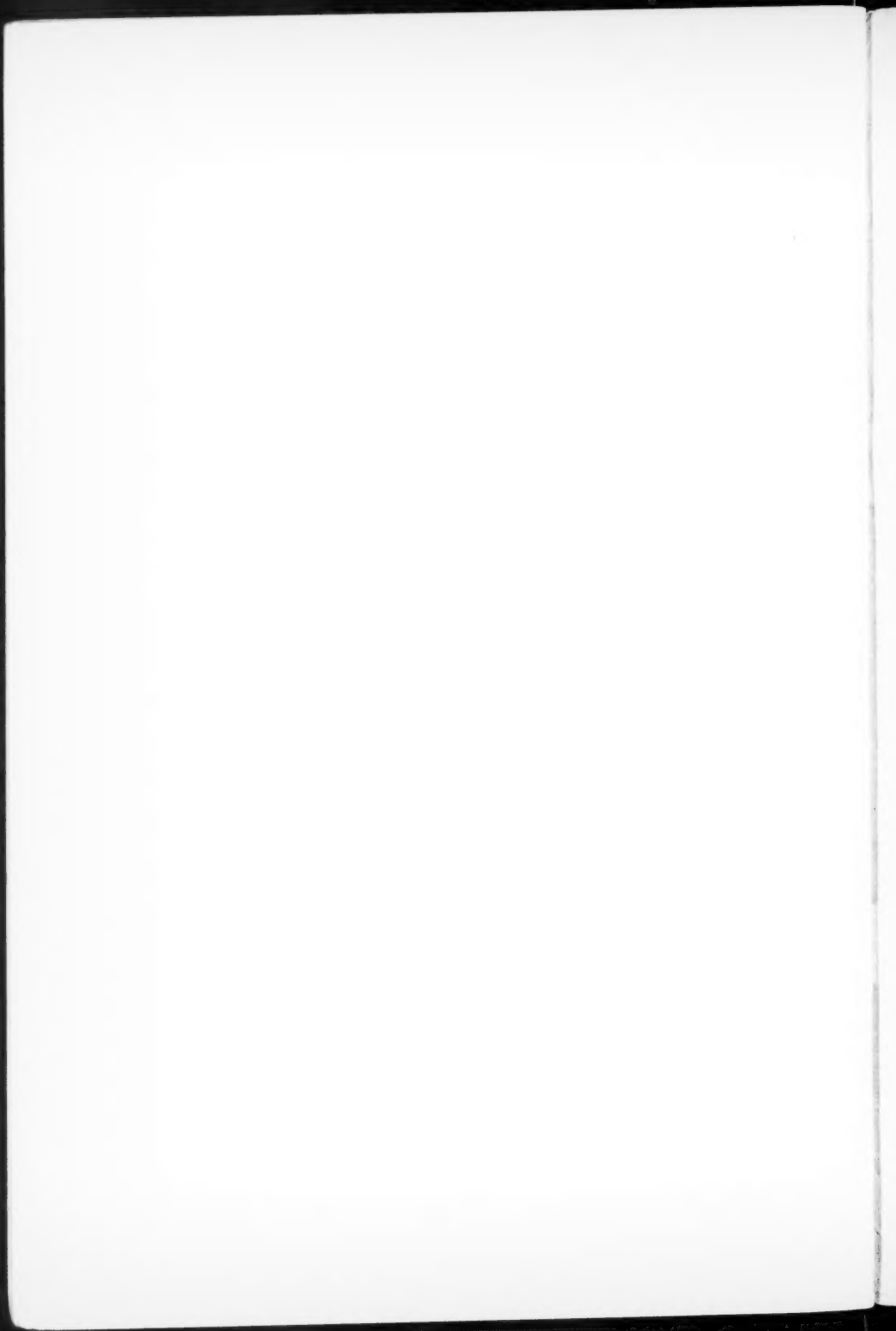
Dept. 3. W.I. Process	\$179,403.72
Manufacturing Expense	1,216.28
Dept. 2. W.I. Process	180,620.00

Transfer of Costs from Dept. 2

Finished Goods	193,755.32
Dept. 3. W.I. Process	193,755.32

Transfer of cost of production from Dept. 3 to Dept. 2.

Comments: This problem appeared to be well understood by students. The handling of spoiled and defective costs were confused in some instances but this data and the arithmetic calculations were the only points which caused incorrect solutions. As the examiners are not seriously concerned about mistakes in arithmetic, the marks were relatively good—an average for the papers which were marked being 11 out of a possible 16.



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